



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE

March 29, 2012

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on Lee County, Iowa.

The County had local tax revenue of \$40,966,140 for the year ended June 30, 2011, which included \$1,554,573 in tax credits from the state. The County forwarded \$30,408,896 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$10,557,244 of the local tax revenue to finance County operations, a 5.8% increase over the prior year. Other revenues included charges for service of \$3,188,800, operating grants, contributions and restricted interest of \$8,178,854, capital grants, contributions and restricted interest of \$576,221, local option sales tax of \$1,540,158, unrestricted investment earnings of \$136,425 and other general revenues of \$466,120.

Expenses for County operations totaled \$24,566,768, a 9.0% increase from the prior year. Expenses included \$6,255,709 for roads and transportation, \$4,800,710 for mental health, \$4,229,673 for public safety and legal services and \$3,935,289 for physical health and social services.

A copy of the audit report is available for review in the County Auditor's office, in the Office of Auditor of State and on the Auditor of State's web site at:
<http://auditor.iowa.gov/reports/1110-0056-B00F.pdf>.

###

LEE COUNTY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5-6
Management's Discussion and Analysis	7-13
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Assets	A 16-17
Statement of Activities	B 19
Governmental Fund Financial Statements:	
Balance Sheet	C 20-21
Reconciliation of the Balance Sheet – Governmental Funds to the	
Statement of Net Assets	D 23
Statement of Revenues, Expenditures and Changes in Fund Balances	E 24-25
Reconciliation of the Statement of Revenues, Expenditures and	
Changes in Fund Balances – Governmental Funds to the	
Statement of Activities	F 26
Proprietary Fund Financial Statements:	
Statement of Net Assets	G 27
Statement of Revenues, Expenses and Changes in Fund Net Assets	H 28
Statement of Cash Flows	I 29
Fiduciary Fund Financial Statement:	
Statement of Fiduciary Assets and Liabilities – Agency Funds	J 30
Notes to Financial Statements	31-49
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and	
Changes in Balances – Budget and Actual (Cash Basis) – All	
Governmental Funds	52-53
Budget to GAAP Reconciliation	54
Notes to Required Supplementary Information – Budgetary Reporting	55
Schedule of Funding Progress for the Retiree Health Plan	56
Other Supplementary Information:	<u>Schedule</u>
Nonmajor Governmental Funds:	
Combining Balance Sheet	1 58-59
Combining Schedule of Revenues, Expenditures	
and Changes in Fund Balances	2 60-61
Internal Service Funds:	
Combining Schedule of Net Assets	3 62
Combining Schedule of Revenues, Expenditures	
and Changes in Fund Net Assets	4 63
Combining Schedule of Cash Flows	5 65
Agency Funds:	
Combining Schedule of Fiduciary Assets and Liabilities	6 66-67
Combining Schedule of Changes in Fiduciary Assets and Liabilities	7 68-69
Schedule of Revenues by Source and Expenditures by Function –	
All Governmental Funds	8 70-71
Schedule of Expenditures of Federal Awards	9 72-73
Independent Auditor's Report on Internal Control over Financial	
Reporting and on Compliance and Other Matters Based on an	
Audit of Financial Statements Performed in Accordance with	
<u>Government Auditing Standards</u>	75-76
Independent Auditor's Report on Compliance with Requirements	
That Could Have a Direct and Material Effect on Each Major	
Program and on Internal Control over Compliance in Accordance	
with OMB Circular A-133	79-80
Schedule of Findings and Questioned Costs	81-89
Staff	90

Lee County

Officials

(Before January 2011)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Rick Larkin	Board of Supervisors	Jan 2011
Ernest Schiller	Board of Supervisors	Jan 2011
Janet Fife-LaFrenz	Board of Supervisors	Jan 2013
Gary Folluo	Board of Supervisors	Jan 2013
Larry Kruse	Board of Supervisors	Jan 2013
 Anne M. Pedersen	 County Auditor	 Jan 2013
 Janet Strunk	 County Treasurer	 Jan 2011
 Larry J. Holtkamp	 County Recorder	 (Retired)
Nancy Booten (Appointed)	County Recorder	Nov 2010
 H.D. Buck Jones	 County Sheriff	 (Retired)
Jim Sholl (Appointed)	County Sheriff	Nov 2012
 Michael P. Short	 County Attorney	 Jan 2011
 Teresa Murray	 County Assessor	 Jan 2016

(After January 2011)

<u>Name</u>	<u>Title</u>	<u>Expires</u>
Janet Fife-LaFrenz	Board of Supervisors	Jan 2013
Gary Folluo	Board of Supervisors	Jan 2013
Larry Kruse	Board of Supervisors	Jan 2013
Rick Larkin	Board of Supervisors	Jan 2015
Ernest Schiller	Board of Supervisors	Jan 2015
 Anne M. Pedersen	 County Auditor	 Jan 2013
 Janet Strunk	 County Treasurer	 Jan 2015
 Nancy Booten	 County Recorder	 Jan 2015
 Jim Sholl	 County Sheriff	 Nov 2012
 Michael P. Short	 County Attorney	 Jan 2015
 Teresa Murray	 County Assessor	 Jan 2016

Lee County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report

To the Officials of Lee County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lee County, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Lee County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Lincoln Ridge Limited Partnership, a blended component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the blended component unit, is based solely on the report of the other auditors.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Lincoln Ridge Limited Partnership were not audited in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit and the report of the other auditors provide a reasonable basis for our opinions.

The financial statements of Lee County EMS Ambulance, Inc., the County's only discretely presented component unit, have not been audited, and we were not engaged to audit the financial statements of Lee County EMS Ambulance, Inc. as part of our audit of the County's basic financial statements. As described in Note 14, the County has chosen to present condensed financial information for Lee County EMS Ambulance, Inc. Because Lee County EMS Ambulance, Inc.'s financial statements have not been audited, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the condensed financial information of the discretely presented component unit of the County as of and for the year ended December 31, 2010.


In addition, in our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Lee County at June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 6, 2012 on our consideration of Lee County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 13 and 52 through 56 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lee County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 6, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lee County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of the County is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- The assets of the County exceeded liabilities at June 30, 2011 by approximately \$38.8 million.
- Lee County's net assets increased approximately \$77,000 from fiscal year 2010 to fiscal year 2011.
- Governmental activities revenues in fiscal year 2011 increased 9.5%, or approximately \$2,144,000, from fiscal year 2010. Property and other county tax increased approximately \$589,000 in fiscal year 2011 over fiscal year 2010. The overall tax levy rate increased \$.30695, from \$10.83899 to \$11.14594, per \$1,000 of taxable valuation. The countywide and the rural services taxable property valuations increased approximately \$26.4 million and \$20.7 million, respectively, from fiscal year 2010 to fiscal year 2011.
- Governmental activities expenditures increased 9.0%, or approximately \$2,024,000, from fiscal year 2010 to fiscal year 2011. The increase in expenditures is due primarily to an increase in secondary road project expenditures and an increase in mental health expenditures during fiscal year 2011.
- The County is in the tenth year of implementation of the Lee County Economic Development Plan. The goal of this plan is to bring much needed jobs to the County, thus employing our citizens and increasing the County's tax base. The Lee County Board of Supervisors, other than budgetary, allows this department to function with considerable autonomy.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows.

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's fiscal activities.
- Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Lee County as a whole and present an overall view of the County's finances.
- Fund Financial Statements tell how governmental services were financed in the short-term as well as what remains for future spending. Fund financial statements report Lee County's operations in more detail than the government-wide financial statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Lee County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

- Other Supplementary Information provides detailed information about the nonmajor governmental and the individual Internal Service and Agency Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the County.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets includes all of the County's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the County's net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The County's governmental activities are presented in the Statement of Net Assets and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, interest on long-term debt and non-program activities. Property tax and state and federal grants finance most of these activities.

Fund Financial Statements

The County has three kinds of funds:

1) Governmental funds account for most of the County's basic services. These focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental funds include the 1) General Fund, 2) the Special Revenue Funds, such as Mental Health, Rural Services and Secondary Roads, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2) Proprietary funds account for the County's Internal Service Funds. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the County's various functions.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

3) Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support the County's own programs. These fiduciary funds include Agency Funds that account for the County Assessor's office, E911 and emergency management services, to name a few.

The County is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The County excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statement for fiduciary funds is a statement of fiduciary assets and liabilities.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Lee County's combined net assets were relatively unchanged from a year ago, increasing approximately \$77,000 to approximately \$38.8 million. The analysis that follows focuses on the changes in the net assets of governmental activities.

Net Assets of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2011	2010
Current and other assets	\$ 24,389	23,092
Capital assets	36,718	37,693
Total assets	61,107	60,785
Long-term liabilities	9,537	10,012
Other liabilities	12,771	12,051
Total liabilities	22,308	22,063
Net assets:		
Invested in capital assets, net of related debt	31,473	32,340
Restricted	7,215	6,554
Unrestricted	111	(172)
Total net assets	\$ 38,799	38,722

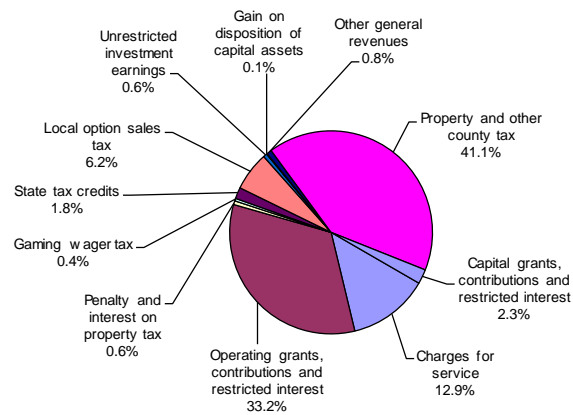
Lee County's total net assets increased approximately \$77,000, or .2%. The largest portion of the County's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. Debt related to capital assets is liquidated with resources other than capital assets. Comparatively, fiscal year 2010 total net assets decreased approximately \$43,000, or .1%, from fiscal year 2009.

Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, increased from approximately \$(172,000) at June 30, 2010 to approximately \$111,000 at the end of this year, an increase of 165%, primarily due to bonds and notes payable decreasing and a reduction in compensated absences.

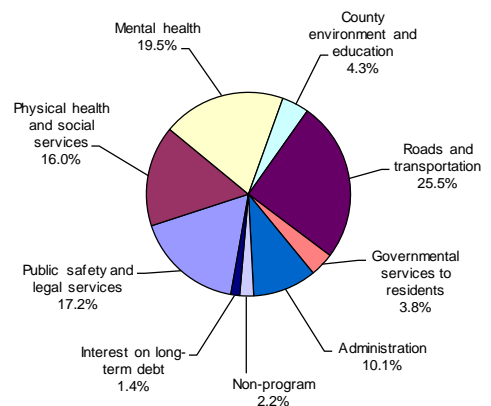
Changes in Net Assets of Governmental Activities
(Expressed in Thousands)

	Year ended June 30,	
	2011	2010
Revenues:		
Program revenues:		
Charges for service	\$ 3,189	2,692
Operating grants, contributions and restricted interest	8,179	7,503
Capital grants, contributions and restricted interest	576	165
General revenues:		
Property and other county tax	10,114	9,525
Penalty and interest on property tax	151	151
Gaming wager tax	91	79
State tax credits	443	457
Local option sales tax	1,540	1,586
Unrestricted investment earnings	136	163
Gain on disposition of capital assets	16	14
Other general revenues	209	165
Total revenues	24,644	22,500
Program expenses:		
Public safety and legal services	4,230	3,807
Physical health and social services	3,935	3,801
Mental health	4,801	4,380
County environment and education	1,045	1,224
Roads and transportation	6,256	5,478
Governmental services to residents	932	901
Administration	2,481	2,247
Non-program	534	351
Interest on long-term debt	353	354
Total expenses	24,567	22,543
Increase (decrease) in net assets	77	(43)
Net assets beginning of year	38,722	38,765
Net assets end of year	\$ 38,799	38,722

Revenue by Source



Expenses by Program



For fiscal year 2011, Lee County's property tax rates increased to \$9.41994 per \$1,000 of taxable valuation for the countywide levy and increased to \$1.72600 per \$1,000 of taxable valuation for the rural levy. The countywide taxable property valuation increased \$26,369,000 and the rural taxable property valuation increased \$20,663,000. The net effect of the increases in valuations and the increase in tax rates was a net increase in property and other county tax revenue of approximately \$589,000.

Capital grants, contributions and restricted interest increased approximately \$411,000 due to an increase in capital grants being contributed by the Iowa Department of Transportation in fiscal year 2011.

INDIVIDUAL MAJOR FUND ANALYSIS

As Lee County completed the year, its governmental funds reported a combined fund balance of \$9,608,475, which is more than the \$8,955,042 combined fund balance at the end of fiscal year 2010.

The General Fund, the operating fund for Lee County, ended fiscal year 2011 with an ending balance of \$4,457,766 compared to the restated prior year ending balance of \$4,185,888, an increase of \$271,878. Revenues increased \$677,627, primarily due to an increase in property tax revenue. Expenditures decreased \$95,253 in fiscal year 2011.

The Special Revenue, Mental Health Fund ended fiscal year 2011 with an ending balance of \$1,403,965, compared to the prior year ending balance of \$1,264,619, an increase of \$139,346. Revenues increased \$187,285, primarily due to an increase in state payment program funding and allowable growth factor. Expenditures increased \$538,544, primarily due to the County's matching percentage for Medicaid expenses increasing as well as a new intermediate care facility for persons with physical and mental illness (ICF/PMI) opening within the County.

The Special Revenue, Secondary Roads Fund ended fiscal year 2011 with an ending balance of \$1,854,945 compared to the prior year ending balance of \$1,579,534, an increase of \$275,411. Revenues increased \$488,690, primarily due to an increase of approximately \$213,000 in road use tax funding and an increase of approximately \$181,000 due to a USDA emergency watershed protection grant. Expenditures increased \$720,372, primarily due to roadway expenditures for valley road project and road maintenance.

The Debt Service Fund ended fiscal year 2011 with an ending balance of \$494,802 compared to the prior year ending balance of \$536,831, a decrease of \$42,029. Revenues increased \$26,901. Expenditures increased \$71,008 due to debt service payments.

BUDGETARY HIGHLIGHTS

Over the course of the year, Lee County amended its budget three times. The first amendment was made on August 17, 2010 to allow for the Argyle sanitary sewer project and anticipated new sewer project receipts and disbursements for various locations in the county. The amendment also was to increase the budget for carryover of infant and toddler quality child care program disbursements from fiscal year 2010. The second amendment was made on February 8, 2011. This amendment was made to increase conservation receipts and disbursements for additional grants received and to increase maintenance for additional disbursements. The third amendment was made on May 27, 2011. This amendment was to allow for FEMA work at river access areas and road work at Pollmiller Park.

The County's receipts were \$140,961 less than budgeted, a variance of .6%. Miscellaneous receipts were \$92,921 less than budgeted, primarily due to TIME-21 money originally budgeted in miscellaneous but the funds were deposited in the intergovernmental revenue code.

Total disbursements were \$2,197,833 less than the amended budget, a variance of 9.1%. Actual disbursements for the physical health and social services, mental health and capital projects functions were \$332,047, \$763,674 and \$387,955, respectively, less than budgeted. The physical health and social services function shortfall was primarily due to fewer juvenile detention services expenses, fewer general relief claims, a reduction of grant money and a reduction of staff. The mental health function decreased primarily due to a reduction in disbursements. The County MH/DD budget is based on projections/educated guess cross reference with historical patterns as to not only what receipts will come in, but also what disbursements will be required. During fiscal year 2011, Medicaid at the federal level was in flux and under extreme scrutiny, which lends itself to a budgeting environment at the local level to plan for the worst case scenario. Additionally, the implementation of Health Care reform was questionable and, at the time of budgeting, it was unknown what implication that would have to local services and rates. Termination of ARRA dollars and the ending result of FMAP percentage the county would have been potentially obligated to pay on Medicaid service was an unknown and also lent itself to financial planning for the worst case scenario. Finally, there is no way to predict the numbers of individuals to be served and at what level/cost of service a person will be served per the county management plan. We have seen variances in individual services, though our populations served numbers were relatively consistent. There were changes in high end service users and lower end service users. This occurred for a number of reasons, including, but not limited to, death, med stabilization, imprisonment, access to other sources of payment and assessed levels of care variances. Capital projects included bridge work started during fiscal year 2011 but not finished until fiscal year 2012.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the County had invested approximately \$36.7 million, net of accumulated depreciation/amortization, in a broad range of capital assets, including land, buildings, computers and audio-visual equipment, transportation equipment and administrative offices. This amount is a net decrease of approximately \$975,000 from fiscal year 2010, primarily due to accumulated depreciation/amortization. The most significant change to capital assets during fiscal year 2011 was completion of the jail project.

Lee County had depreciation/amortization expense of approximately \$2.3 million in fiscal year 2011 and total accumulated depreciation/amortization of approximately \$28.2 million at June 30, 2011. Additional information about the County's capital assets is included in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2011, the County had approximately \$8,941,000 of long-term debt outstanding. This represents a decrease of approximately \$447,000 from the fiscal year 2010 total.

Outstanding debt decreased primarily due to scheduled payments of \$460,000 made on general obligation bonds. The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5 percent of the assessed value of all taxable property within the County's corporate limits. Lee County's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$90.9 million. Additional information about the County's long-term debt is included in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

From fiscal year 2010 to fiscal year 2011, the countywide and the rural taxable property valuations increased approximately \$26.4 million and \$20.7 million, respectively. In fiscal year 2012, the countywide and the rural taxable property valuations increased approximately \$30.4 million and \$19.2 million, respectively.

Amounts budgeted for disbursements in the fiscal year 2012 operating budget are approximately \$25.6 million, an increase of 14.8% from the fiscal year 2011 actual disbursements of approximately \$22.2 million. The County's ending fund balances are expected to end fiscal year 2012 with a budgeted ending cash balance of approximately \$5 million, compared to the June 30, 2011 actual cash balance of approximately \$9 million.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the County's citizens, taxpayers, customers, investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Lee County Board of Supervisors at P.O. Box 488, Fort Madison, IA 52627-0488.

Lee County

Basic Financial Statements

Exhibit A

Lee County
Statement of Net Assets
June 30, 2011

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 11,419,774
Receivables:	
Property tax:	
Delinquent	50,478
Succeeding year	10,213,000
Interest and penalty on property tax	44,973
Accounts	426,751
Accrued interest	15,853
E911 loan	455,000
Due from other governments	1,241,261
Inventories	522,117
Capital assets (net of accumulated depreciation/amortization)	<u>36,718,015</u>
Total assets	<u>61,107,222</u>
Liabilities	
Accounts payable	1,381,103
Accrued interest payable	30,514
Salaries and benefits payable	258,265
Due to other governments	887,807
Deferred revenue:	
Succeeding year property tax	10,213,000
Long-term liabilities:	
Portion due or payable within one year:	
General obligation bonds	475,000
Bank loans	35,013
Capital lease purchase agreements	34,051
Installment purchase agreement	13,000
Compensated absences	288,228
Portion due or payable after one year:	
General obligation bonds	8,100,000
Bank loans	230,507
Capital lease purchase agreements	14,652
Installment purchase agreement	39,000
Compensated absences	119,692
Net OPEB liability	<u>188,000</u>
Total liabilities	<u>22,307,832</u>

Lee County
Statement of Net Assets
June 30, 2011

	<u>Governmental Activities</u>
Net Assets	
Invested in capital assets, net of related debt	31,472,752
Restricted for:	
Nonexpendable:	
Permanent fund - hospice care	82,500
Expendable:	
Supplemental levy purposes	1,502,765
Mental health purposes	1,409,431
Rural services purposes	647,418
Secondary roads purposes	1,784,994
Conservation land acquisition	14,806
Debt service	497,645
Building repair and maintenance	625,065
Hospice purposes	24,022
Other purposes	626,303
Unrestricted	111,689
Total net assets	<u><u>\$ 38,799,390</u></u>

See notes to financial statements.

Lee County

Lee County
Statement of Activities
Year ended June 30, 2011

		Program Revenues			Net
		Operating Grants, Capital Grants,			(Expense)
		Charges	Contributions	Contributions	Revenue and
		for	and Restricted	and Restricted	Changes in
	Expenses	Service	Interest	Interest	Net Assets
Functions/Programs:					
Governmental activities:					
Public safety and legal services	\$ 4,229,673	275,683	167,292	7,790	(3,778,908)
Physical health and social services	3,935,289	1,737,609	1,109,017	-	(1,088,663)
Mental health	4,800,710	137,216	2,688,430	-	(1,975,064)
County environment and education	1,044,936	37,158	571,132	-	(436,646)
Roads and transportation	6,255,709	35,130	3,582,147	568,431	(2,070,001)
Governmental services to residents	932,065	497,183	20,848	-	(414,034)
Administration	2,480,797	46,972	13,847	-	(2,419,978)
Non-program	534,240	421,849	26,141	-	(86,250)
Interest on long-term debt	353,349	-	-	-	(353,349)
Total	\$ 24,566,768	3,188,800	8,178,854	576,221	(12,622,893)
General Revenues:					
Property and other county tax levied for:					
General purposes					9,388,478
Debt services					725,642
Penalty and interest on property tax					150,561
Gaming wager tax					91,079
State tax credits					443,124
Local option sales tax					1,540,158
Unrestricted investment earnings					136,425
Gain on disposition of capital assets					16,000
Miscellaneous					208,480
Total general revenues					12,699,947
Change in net assets					77,054
Net assets beginning of year					38,722,336
Net assets end of year					\$ 38,799,390

See notes to financial statements.

Lee County
Balance Sheet
Governmental Funds

June 30, 2011

		Special Revenue	
		Mental	Secondary
	General	Health	Roads
Assets			
Cash and pooled investments:			
County Treasurer	\$ 4,480,791	2,391,486	1,196,109
Component units	-	-	-
Receivables:			
Property tax:			
Delinquent	33,308	10,752	-
Succeeding year	6,444,000	2,080,000	-
Interest and penalty on property tax	44,973	-	-
Accounts	64,722	200	607
Accrued interest	14,733	-	-
E911 loan	-	-	-
Due from other governments	604,016	72,239	306,173
Inventories	-	-	522,106
Total assets	\$ 11,686,543	4,554,677	2,024,995
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 277,128	303,951	34,072
Salaries and benefits payable	184,111	4,176	52,080
Due to other funds	2,146	148	15
Due to other governments	132,408	753,830	184
Deferred revenue:			
Succeeding year property tax	6,444,000	2,080,000	-
Other	188,984	8,607	83,699
Total liabilities	7,228,777	3,150,712	170,050
Fund balances:			
Nonspendable:			
Inventories	-	-	522,106
Hospice care	-	-	-
Restricted for:			
Supplemental levy purposes	1,523,532	-	-
Mental health purposes	-	1,403,965	-
Rural services purposes	-	-	-
Secondary roads purposes	-	-	1,332,839
Conservation land acquisition	14,806	-	-
Debt service	-	-	-
Hospice care	-	-	-
Building repair and maintenance (local option sales tax)	625,065	-	-
Other purposes	-	-	-
Assigned for:			
Sheriff commissary	15,655	-	-
Capital projects	-	-	-
Unassigned	2,278,708	-	-
Total fund balances	4,457,766	1,403,965	1,854,945
Total liabilities and fund balances	\$ 11,686,543	4,554,677	2,024,995

See notes to financial statements.

Debt Service	Nonmajor	Total
39,078	923,231	9,030,695
-	349,642	349,642
3,550	2,868	50,478
729,000	960,000	10,213,000
-	-	44,973
-	361,131	426,660
17	185	14,935
455,000	-	455,000
-	258,833	1,241,261
-	-	522,106
1,226,645	2,855,890	22,348,750

-	419,243	1,034,394
-	15,440	255,807
-	-	2,309
-	1,385	887,807
729,000	960,000	10,213,000
2,843	62,825	346,958
731,843	1,458,893	12,740,275

-	-	522,106
-	82,500	82,500
-	-	1,523,532
-	-	1,403,965
-	615,247	615,247
-	-	1,332,839
-	-	14,806
494,802	-	494,802
-	24,022	24,022
-	-	625,065
-	662,527	662,527
-	-	15,655
-	48,925	48,925
-	(36,224)	2,242,484
494,802	1,396,997	9,608,475
1,226,645	2,855,890	22,348,750

Lee County

Lee County

Reconciliation of the Balance Sheet -
Governmental Funds to the Statement of Net Assets

June 30, 2011

Total governmental fund balances (page 21) \$ 9,608,475

***Amounts reported for governmental activities in the Statement of
Net Assets are different because:***

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$64,670,502 and the accumulated depreciation/amortization is \$28,034,629.

36,635,873

Other long-term assets are not available to pay for current year expenditures and, therefore, are deferred in the governmental funds.

346,958

The Internal Service Funds are used by management to charge the costs of various services to individual departments and funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the Statement of Net Assets, as follows:

Capital assets of \$204,891, net of accumulated
depreciation/amortization of \$122,749

\$ 82,142

Compensated absences

(4,207)

Net OPEB liability

(1,602)

Other net assets

1,693,599

1,769,932

Long-term liabilities, including general obligation bonds payable, bank loans payable, capital lease purchase agreements payable, installment purchase agreement payable, other postemployment benefits payable, accrued interest payable and compensated absences payable, are not due and payable in the current year and, therefore, are not reported in the governmental funds.

(9,561,848)

Net assets of governmental activities (page 17)

\$ 38,799,390

See notes to financial statements.

Lee County
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds

Year ended June 30, 2011

		Special Revenue	
	General	Mental Health	Secondary Roads
Revenues:			
Property and other county tax	\$ 6,655,382	2,065,904	-
Local option sales tax	377,160	-	-
Interest and penalty on property tax	141,028	-	-
Intergovernmental	3,304,367	2,735,791	3,500,152
Licenses and permits	82,476	-	15,950
Charges for service	937,775	-	26
Use of money and property	162,651	75,882	-
Miscellaneous	91,045	21,392	28,498
Total revenues	11,751,884	4,898,969	3,544,626
Expenditures:			
Operating:			
Public safety and legal services	3,562,378	-	-
Physical health and social services	3,538,773	-	-
Mental health	-	4,824,623	-
County environment and education	1,150,221	-	-
Roads and transportation	-	-	4,279,542
Governmental services to residents	902,603	-	-
Administration	2,305,653	-	-
Non-program	63,199	-	-
Debt service	-	-	-
Capital projects	1,206	-	239,673
Total expenditures	11,524,033	4,824,623	4,519,215
Excess (deficiency) of revenues over (under) expenditures	227,851	74,346	(974,589)
Other financing sources (uses):			
Installment purchase agreement	-	65,000	-
Capital lease purchase agreement	44,027	-	-
Operating transfers in	-	-	1,250,000
Operating transfers out	-	-	-
Total other financing sources (uses)	44,027	65,000	1,250,000
Net change in fund balances	271,878	139,346	275,411
Fund balances beginning of year	4,185,888	1,264,619	1,579,534
Fund balances end of year	\$ 4,457,766	1,403,965	1,854,945

See notes to financial statements.

Debt Service	Nonmajor	Total
722,799	749,465	10,193,550
-	1,131,480	1,508,640
-	-	141,028
51,366	307,570	9,899,246
-	-	98,426
-	5,934	943,735
1,903	69,066	309,502
-	230,575	371,510
776,068	2,494,090	23,465,637
-	623,103	4,185,481
-	344,191	3,882,964
-	-	4,824,623
-	39,143	1,189,364
-	197,037	4,476,579
-	1,101	903,704
-	-	2,305,653
-	-	63,199
818,097	-	818,097
-	30,688	271,567
818,097	1,235,263	22,921,231
(42,029)	1,258,827	544,406
-	-	65,000
-	-	44,027
-	-	1,250,000
-	(1,250,000)	(1,250,000)
-	(1,250,000)	109,027
(42,029)	8,827	653,433
536,831	1,388,170	8,955,042
494,802	1,396,997	9,608,475

Lee County

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances -
Governmental Funds to the Statement
of Activities

Year ended June 30, 2011

Net change in fund balances - Total governmental funds (page 25) \$ 653,433

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation/amortization expense to allocate those expenditures over the life of the assets. Depreciation/amortization expense exceeded capital outlays and contributed capital assets in the current year, as follows:

Expenditures for capital assets	\$ 713,332	
Capital assets contributed by the Iowa Department of	568,431	
Depreciation/amortization expense	(2,260,656)	(978,893)

In the Statement of Activities, the gain on the disposition of capital assets is reported, whereas the proceeds from the disposition increase financial resources in the governmental funds. 16,000

Because some revenues will not be collected for several months after the County's year end, they are not considered available revenues and are deferred in the governmental funds, as follows:

Property tax	11,649	
Other	145,439	157,088

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded debt issues, as follows:

Issued	(109,027)	
Repaid	556,464	447,437

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Compensated absences	81,998	
Other postemployment benefits	(54,584)	
Interest on long-term debt	4,748	32,162

The Internal Service Funds are used by management to charge the costs of various services to individual departments and funds. The change in net assets of the Internal Service Funds is reported with governmental activities. (250,173)

Change in net assets of governmental activities (page 19) \$ 77,054

See notes to financial statements.

Lee County
Statement of Net Assets
Proprietary Funds

June 30, 2011

	<u>Internal Service</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 2,039,437
Accounts receivable	91
Accrued interest receivable	918
Due from other funds	2,573
Inventories	11
Noncurrent assets:	
Capital assets (net of accumulated depreciation)	82,142
Total assets	<u>2,125,172</u>
Liabilities	
Current liabilities:	
Accounts payable	346,709
Salaries and benefits payable	2,458
Due to other funds	264
Compensated absences	4,207
Non-current liabilities:	
Net OPEB liability	1,602
Total liabilities	<u>355,240</u>
Net Assets	
Invested in capital assets	82,142
Unrestricted	1,687,790
Total net assets	<u>\$ 1,769,932</u>

See notes to financial statements.

Lee County
Statement of Revenues, Expenses and
Changes in Fund Net Assets
Proprietary Funds

Year ended June 30, 2011

		<u>Internal Service</u>
Operating revenues:		
Reimbursements from operating funds and other governmental units		\$ 2,254,981
Reimbursements from employees and others		218,091
Miscellaneous reimbursements		<u>7,377</u>
Total operating revenues		2,480,449
Operating expenses:		
Medical and health services	\$ 2,207,736	
Supplemental insurance	4,428	
Salaries and benefits	80,480	
Administrative fees, network access fees and stop-loss premium	240,032	
Supplies, utilities and data processing	144,488	
Maintenance agreements	17,722	
Non-capitalized equipment	16,155	
Depreciation	<u>30,964</u>	<u>2,742,005</u>
Operating loss		(261,556)
Non-operating revenues:		
Interest income		<u>11,383</u>
Net loss		(250,173)
Net assets beginning of year		<u>2,020,105</u>
Net assets end of year		<u><u>\$ 1,769,932</u></u>

See notes to financial statements.

Lee County
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2011

	<u>Internal Service</u>
Cash flows from operating activities:	
Cash received from operating funds and other governmental units	\$ 2,308,401
Cash received from employees and others	174,890
Cash paid to suppliers for services	<u>(2,636,946)</u>
Net cash used by operating activities	(153,655)
Cash flows from capital and related financing activities:	
Purchase of equipment	(19,251)
Cash flows from investing activities:	
Interest on investments	<u>11,375</u>
Net decrease in cash and cash equivalents	(161,531)
Cash and cash equivalents beginning of year	<u>2,200,968</u>
Cash and cash equivalents end of year	<u><u>\$ 2,039,437</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (261,556)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	30,964
Changes in assets and liabilities:	
Decrease in accounts receivable	1,538
Increase in due from other funds	1,303
Decrease in inventories	3,978
Increase in accounts payable	73,080
Increase in salaries and benefits payable	460
Decrease in due to other funds	(3,069)
Increase in compensated absences	(821)
Increase in net OPEB liability	<u>468</u>
Net cash used by operating activities	<u><u>\$ (153,655)</u></u>

See notes to financial statements.

Lee County
Statement of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2011

Assets

Cash and pooled investments:

County Treasurer	\$ 2,340,620
Other County officials	225,625

Receivables:

Property tax:

Delinquent	162,918
------------	---------

Succeeding year	29,126,000
-----------------	------------

Accounts	221,798
----------	---------

Accrued interest	193
------------------	-----

Special assessments	191,533
---------------------	---------

Drainage assessments	80,122
----------------------	--------

Due from other governments	42,565
----------------------------	--------

Total assets	<u>32,391,374</u>
---------------------	-------------------

Liabilities

Accounts payable	115,570
------------------	---------

Salaries and benefits payable	29,071
-------------------------------	--------

Due to other governments	31,658,238
--------------------------	------------

Trusts payable	413,161
----------------	---------

Compensated absences	33,236
----------------------	--------

Bank loan	142,098
-----------	---------

Total liabilities	<u>32,391,374</u>
--------------------------	-------------------

Net assets	<u><u>\$ -</u></u>
-------------------	--------------------

See notes to financial statements.

Lee County
Notes to Financial Statements
June 30, 2011

(1) Summary of Significant Accounting Policies

Lee County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance and general administrative services.

The County's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Lee County has included all funds, organizations, agencies, boards, commissions and authorities. The County has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the County.

These financial statements present Lee County (the primary government) and its component units. The component units discussed below are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

Blended Component Units – The following component units are entities which are legally separate from the County, but are so intertwined with the County they are, in substance, the same as the County. They are reported as part of the County and blended into the appropriate funds.

Great River Progressive Housing Corporation has been incorporated under the provisions of the Iowa Nonprofit Corporation Act for the purpose of fostering low-income housing within Lee County. In accordance with criteria set forth by the Governmental Accounting Standards Board, Great River Progressive Housing Corporation meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Special Revenue Fund of the County.

Lincoln Ridge Limited Partnership is an agreement between the Great River Progressive Housing Corporation (General Partner) and Lee County Development Corporation (Limited Partner) pursuant to the provisions of the Iowa Uniform Limited Partnership Act. The Partnership is established for the sole purpose of engaging in the business of constructing, acquiring, developing, owning, renting,

leasing and disposing of a residential multi-dwelling housing project of up to 16 units for hard to house persons of low income. In accordance with criteria set forth by the Governmental Accounting Standards Board, Lincoln Ridge Limited Partnership meets the definition of a component unit which should be blended. The partnership's financial report for the year ended December 31, 2010 was used to provide the financial activity included in this report. The financial activity of the component unit has been blended as a Special Revenue Fund of the County.

Lee County Economic Development Group has been incorporated under the provisions of the Iowa Nonprofit Corporation Act for the purpose of encouraging economic development and expansion in Lee County. In accordance with criteria set forth by the Governmental Accounting Standards Board, Lee County Economic Development Group meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Special Revenue Fund of the County.

Three Rivers Conservation Foundation has been incorporated under the provisions of the Iowa Nonprofit Corporation Act for the purpose of supporting the mission of the Lee County Conservation Board. In accordance with criteria set forth by the Governmental Accounting Standards Board, Three Rivers Conservation Foundation meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Special Revenue Fund of the County.

Friends of the Lee County Health Department (Friends of Public Health) has been incorporated under the provisions of the Iowa Nonprofit Corporation Act for the purpose of supporting and enhancing the health of the public. In accordance with criteria set forth by the Governmental Accounting Standards Board, Friends of Public Health meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Special Revenue Fund of the County.

Discretely Presented Component Unit

Lee County EMS Ambulance, Inc. (EMS) has been incorporated under the provisions of the Iowa Business Corporation Act to provide ambulance services. The County and EMS have entered into a 28E Agreement as a joint undertaking to assure ambulance services are provided in Lee County. In accordance with the agreement, ambulance service is primarily financed through revenue from recipients of the services and through a subsidy provided by the County. The Lee County Board of Supervisors must approve user rates and changes to these rates.

In accordance with criteria set forth by the Governmental Accounting Standards Board, EMS meets the definition of a component unit which should be discretely presented. Condensed financial statements for the year ended December 31, 2010 presented in Note 14 were prepared on the accrual basis of accounting. Unaudited financial statements may be obtained from Lee County EMS Ambulance, Inc., 314 South Main Street, Donnellson, IA 50265.

Jointly Governed Organizations

The County also participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Lee County Assessor's Conference Board, Lee County Emergency Management Commission,

Lee County Joint E911 Service Board and Children First – Lee/Van Buren Empowerment Area. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

The County also participates in the following jointly governed organizations established pursuant to Chapter 28E of the Code of Iowa: Great River Regional Waste Authority, South Iowa Area Crime Commission, South Iowa Detention Service Agency, Lee County Narcotics Task Force, Southeast Iowa Regional Planning Commission, Southeast Iowa Community Action Agency, Regional Workforce Investment Board, Quad County Decategorization Board, Geode Resource Conservation and Development, Inc., Regional Utility Service Systems Commission and Southeast Iowa Regional Economic, Port Authority and Public Safety Answering Point (PSAP) Association.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the County and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other nonexchange transactions.

The Statement of Net Assets presents the County's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in the following categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The County reports the following major governmental funds:

The General Fund is the general operating fund of the County. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Mental Health Fund is used to account for property tax and other revenues to be used to fund mental health, mental retardation and developmental disabilities services.

The Secondary Roads Fund is used to account for the road use tax allocation from the State of Iowa, required transfers from the General and the Special Revenue, Rural Services Funds and other revenue to be used for secondary road construction and maintenance.

The Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the County's general long-term debt.

Additionally, the County reports the following funds:

Proprietary Funds – Internal Service Funds are utilized to account for the financing of goods or services purchased by one department of the County and provided to other departments or agencies on a cost reimbursement basis.

Fiduciary Funds - Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and/or other funds.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the County's policy is to pay the expenditure from restricted fund balance and then from less-restrictive classifications – committed, assigned and then unassigned fund balances.

The proprietary funds of the County apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's Internal Service Funds are charges to customers for sales and services. Operating expenses for Internal Service Funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The County maintains its financial records on the cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law. Investments are stated at fair value except for the investment in the Automated Government Money Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2010.

Interest and Penalty on Property Tax Receivable – Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable but has not been collected.

Special Assessments Receivable – Special assessments receivable represent the amounts due from individuals for work done which benefits their property. These assessments are payable by individuals in not less than 10 nor more than 20 annual installments. Each annual installment with interest on the unpaid balance is due on September 30 and is subject to the same interest and penalties as other taxes. Special assessments receivable represent assessments which have been made but have not been collected. Succeeding year drainage assessments receivable represents remaining assessments which are payable but not yet due.

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2011, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method. Inventories consist of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets – Capital assets, which include property, equipment and vehicles, intangibles and infrastructure assets acquired after July 1, 1980 (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the County), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are

recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Infrastructure	\$ 50,000
Land, buildings and improvements	25,000
Intangibles	50,000
Equipment and vehicles	5,000

Capital assets of the County are depreciated/amortized using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful lives (In Years)
Buildings	40 - 50
Building improvements	20 - 50
Infrastructure	10 - 65
Intangibles	3 - 20
Equipment	2 - 20
Vehicles	3 - 10

Due to Other Governments – Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable – Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary fund and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2011. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services and Secondary Roads Funds.

Long-Term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund Statement of Net Assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Board of Supervisors intend to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

Net Assets – The unrestricted net assets of the Internal Service, Employee Health Plan Trust Fund is designated for anticipated future catastrophic losses of the County.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amount budgeted in the debt service function.

(2) Cash and Pooled Investments

The County's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Three Rivers Conservation Foundation's investments at June 30, 2011 consist of stocks and stock mutual funds with a fair value of \$124,966. Disclosure of concentration of credit risk and interest rate risk do not apply to these investments.

Friends of Public Health's investments at June 30, 2011 consist of Series A preferred interest in IO-MEGA, LLC, with a cost of \$75,000. Fair value is not determinable for this investment. Disclosures of concentration of credit risk and interest rate do not apply to this investment.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2011 is as follows:

Receivable Fund	Payable Fund	Amount
Internal Service:		
Supplies	General	\$ 2,146
	Special Revenue:	
	Mental Health	148
	Secondary Roads	15
	Internal Service:	
	Employee Health Plan Trust	28
	Information Technology	236
Total		<u>\$ 2,573</u>

These balances result from the time lag between the dates interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system and payments between funds are made.

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
Special Revenue:	Special Revenue:	
Secondary Roads	Rural Services	<u>\$ 1,250,000</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated/amortized:				
Land	\$ 993,136	-	-	993,136
Land, road network	976,085	-	-	976,085
Construction in progress	6,428,748	1,085,294	(6,894,423)	619,619
Total capital assets not being depreciated/amortized	8,397,969	1,085,294	(6,894,423)	2,588,840
Capital assets being depreciated/amortized:				
Buildings	7,708,039	6,755,710	-	14,463,749
Improvements other than buildings	728,022	29,700	-	757,722
Equipment and vehicles	6,417,740	117,769	(66,361)	6,469,148
Equipment - internal service	129,084	19,251	(16,598)	131,737
Intangibles	125,420	-	-	125,420
Intangibles - internal service	73,154	-	-	73,154
Infrastructure, road network	40,061,910	203,713	-	40,265,623
Total capital assets being depreciated/amortized	55,243,369	7,126,143	(82,959)	62,286,553
Less accumulated depreciation/amortization for:				
Buildings	4,148,045	376,209	-	4,524,254
Improvements other than buildings	537,484	15,712	-	553,196
Equipment and vehicles	4,473,122	475,447	(66,361)	4,882,208
Equipment, internal service	93,751	16,334	(16,598)	93,487
Intangibles	116,251	26,531	-	142,782
Intangibles - internal service	14,631	14,631	-	29,262
Infrastructure, road network	16,565,433	1,366,756	-	17,932,189
Total accumulated depreciation/amortization	25,948,717	2,291,620	(82,959)	28,157,378
Total capital assets being depreciated/amortized, net	29,294,652	4,834,523	-	34,129,175
Governmental activities capital assets, net	<u>\$37,692,621</u>	<u>5,919,817</u>	<u>(6,894,423)</u>	<u>36,718,015</u>

Depreciation/amortization expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 110,195
Physical health and social services	19,855
Mental health	84,461
County environment and education	35,002
Roads and transportation	1,708,281
Administration	333,826
Total depreciation/amortization expense - governmental activities	<u>\$ 2,291,620</u>

(6) Due to Other Governments

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments is as follows:

Fund	Description	Amount
General	Services	<u>\$ 132,408</u>
Special Revenue:		
Mental Health	Services	753,830
Secondary Roads	Services	184
Memorial Trust	Services	1,385
		<u>755,399</u>
Total for governmental funds		<u>\$ 887,807</u>
Agency:		
County Assessor	Collections	\$ 839,718
Schools		16,753,595
Community Colleges		1,075,893
Corporations		10,882,854
Auto License and Use Tax		801,602
All other		1,304,576
Total for agency funds		<u>\$ 31,658,238</u>

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2011 is as follows:

	General Obligation Jail Bonds	General Obligation Solid Waste Disposal Bonds	General Obligation Emergency Services Bonds	County Bank Loan	Great River Progressive Housing Corporation Bank Loan	Capital Lease Purchase Agreements	County Real Estate Installment Purchase Agreement	Compen- sated Absences	Net OPEB Liability	Total
Balance beginning of year	\$ 5,050,000	3,485,000	500,000	60,127	238,612	54,921	-	490,739	132,948	10,012,347
Increases	-	-	-	-	-	44,027	65,000	448,949	84,952	642,928
Decreases	190,000	225,000	45,000	6,666	26,553	50,245	13,000	531,768	29,900	1,118,132
Balance end of year	<u>\$ 4,860,000</u>	<u>3,260,000</u>	<u>455,000</u>	<u>53,461</u>	<u>212,059</u>	<u>48,703</u>	<u>52,000</u>	<u>407,920</u>	<u>188,000</u>	<u>9,537,143</u>
Due within one year	<u>\$ 195,000</u>	<u>235,000</u>	<u>45,000</u>	<u>7,033</u>	<u>27,980</u>	<u>34,051</u>	<u>13,000</u>	<u>288,228</u>	<u>-</u>	<u>845,292</u>

General Obligation Jail Bonds

The County sold \$5,400,000 of general obligation bonds dated June 1, 2008 to pay the cost to construct, furnish and equip an addition to and renovate portions of the County Jail, including an area for centralized dispatch.

A summary of the annual bond principal and interest requirements to maturity is as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2012	3.50%	\$ 195,000	191,720	386,720
2013	3.50	205,000	184,895	389,895
2014	3.50	215,000	177,720	392,720
2015	3.50	225,000	170,195	395,195
2016	4.00	235,000	162,320	397,320
2017-2021	3.70-5.00	1,335,000	701,945	2,036,945
2022-2026	3.80-4.00	1,675,000	421,900	2,096,900
2027-2028	4.00	775,000	92,400	867,400
Total		\$ 4,860,000	2,103,095	6,963,095

General Obligation Solid Waste Disposal Bonds

The County sold \$3,900,000 of general obligation bonds dated November 1, 2007 for the purpose of paying Lee County's share of the cost of construction of works and facilities necessary to expand the Great River Regional Waste Authority's landfill to provide an additional fifteen years of available permitted and approved landfill for disposal of Lee County solid waste.

A summary of the annual bond principal and interest requirements to maturity is as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2012	4.25%	\$ 235,000	127,718	362,718
2013	4.20	245,000	117,732	362,732
2014	4.20	260,000	107,442	367,442
2015	4.00	270,000	97,042	367,042
2016	4.00	280,000	86,242	366,242
2017-2021	3.73-3.85	1,605,000	259,790	1,864,790
2022	3.90	365,000	41,946	406,946
Total		\$ 3,260,000	837,912	4,097,912

General Obligation Emergency Services Bonds

The County sold \$500,000 of general obligation bonds dated April 6, 2010 for the purpose of paying costs in connection with the acquisition and installation of emergency services communication equipment.

A summary of the annual bond principal and interest requirements to maturity is as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2012	2.10%	\$ 45,000	17,095	62,095
2013	2.60	45,000	16,150	61,150
2014	3.10	50,000	14,980	64,980
2015	3.45	50,000	13,430	63,430
2016	3.80	50,000	11,705	61,705
2017-2020	4.10-5.00	215,000	25,645	240,645
Total		\$ 455,000	99,005	554,005

These bonds were issued under the U.S. Department of the Treasury Recovery Zone Economic Development Bonds program. As such, the County will receive a credit for 45% of the interest payable to bond holders.

County Bank Loan

In January 2002, the County entered into a loan agreement with a bank to borrow \$100,000 for the construction of apartments to house persons with disabilities. In October 2002, the County modified the loan agreement, extending the maturity date to October 15, 2017 and requiring semi-annual payments, including interest at 5.55% per annum. The balance of the loan at June 30, 2011 was \$53,461.

A summary of the annual loan principal and interest requirements to maturity is as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2012	5.55%	\$ 7,033	2,878	9,911
2013	5.55	7,436	2,476	9,912
2014	5.55	7,855	2,056	9,911
2015	5.55	8,298	1,614	9,912
2016	5.55	8,761	1,150	9,911
2017-2018	5.55	14,078	789	14,867
Total		\$ 53,461	10,963	64,424

During the year ended June 30, 2011, the County paid principal of \$6,666 on the loan.

Great River Progressive Housing Corporation Bank Loan

On January 13, 2003, Great River Progressive Housing Corporation (GRPHC), general partner to Lincoln Ridge Limited Partnership (LRLP), entered into a loan agreement with a bank to borrow \$400,000 for the construction of a low-income housing project for persons with mental disabilities. The loan bears interest at 5.41% per annum and requires semi-annual payments of \$19,555, including interest, on December 15 and June 15, with the final payment due on December 15, 2017. The amount of each principal and interest payment is equivalent to Lee County's payment to GRPHC pursuant to a service agreement. During the year ended June 30, 2011, GRPHC made payments on the loan, consisting of principal of \$26,553 and interest of \$12,556. The balance owed on the loan at June 30, 2011 was \$212,059.

A summary of the annual loan principal and interest requirements to maturity on the bank loan is as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2012	5.41%	\$ 27,980	11,129	39,109
2013	5.41	29,543	9,566	39,109
2014	5.41	31,163	7,946	39,109
2015	5.41	32,872	6,237	39,109
2016	5.41	34,664	4,446	39,110
2017-2018	5.41	55,837	3,057	58,894
Total		\$ 212,059	42,381	254,440

Capital Lease Purchase Agreements

The County has entered into capital lease purchase agreement to lease four sheriff's vehicles and a tractor.

The following is a schedule of the future minimum lease payments, including interest at rates ranging from 6.9% to 7.50% per annum, and the present value of net minimum lease payments under the agreements in effect at June 30, 2011:

Year Ending June 30,	Sheriff's Vehicles	Kubota Tractor	Total
2012	\$ 30,340	7,186	37,526
2013	15,693	-	15,693
Total minimum lease payments	46,033	7,186	53,219
Less amount representing interest	(3,998)	(518)	(4,516)
Present value of net minimum lease payments	\$ 42,035	6,668	48,703

The book value of assets acquired under capital leases totaled \$131,567. Payments under capital lease purchase agreements for the year ended June 30, 2011 totaled \$53,858.

County Real Estate Installment Purchase Agreement

On December 7, 2010, the County entered into a real estate purchase installment agreement with Fort Madison Professional Building Association to purchase property located at 327 Avenue G, Fort Madison to be utilized as housing for persons with MH/DD disabilities. The agreement, in the amount of \$65,000, bears interest at 0% over a five year period.

The following is a schedule of the future payments under the agreement in effect at June 30, 2011:

Year Ending June 30,	Principal
2012	\$ 13,000
2013	13,000
2014	13,000
2015	13,000
Total	\$ 52,000

Payments under the installment purchase agreement for the year ended June 30, 2011 totaled \$13,000.

(8) E911 Loan Receivable

On April 1, 2010, the County entered into a \$500,000 loan agreement with the E911 Service Board. The E911 Service Board agreed to pay all amounts due by the County under the general obligation emergency services bonds issued on April 6, 2010. Note 7 to the financial statements displays the summary of the annual bond principal and interest requirements to maturity.

The bonds were issued under the U.S. Department of the Treasury Recovery Zone Economic Development Bonds program. As such, the County will receive a credit for 45% of the interest payable to bond holders. The E911 Service Board is responsible for 55% of the interest payable to bond holders.

(9) Pension and Retirement Benefits

The County contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the County is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$496,798, \$445,041 and \$412,993, respectively, equal to the required contributions for each year.

(10) Endowment

In 1998, the Lee County Health Department was given \$82,500 to establish the Gilbert Neff Memorial for the purpose of assisting needy persons in gaining access to hospice care. The endowment requires the principal amount be held in trust and only the interest generated by the investment be spent. The Health Department has established written guidelines for the use of these funds.

The County maintains the endowment principal in the Permanent, Neff Memorial Fund. Interest earned on the principal is credited to the Special Revenue, Neff Memorial Fund to be used in accordance with the endowment provisions. The balance in the permanent fund is reported as nonspendable for hospice care, while the balance in the Special Revenue fund is reported as restricted for hospice care.

(11) Other Postemployment Benefits (OPEB)

Plan Description – The County operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 170 active and 4 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits plan, which is a partially self-funded medical plan, is administered by Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy – The contribution requirements of plan members are established and may be amended by the County. The County currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation – The County’s annual OPEB cost is calculated based on the annual required contribution (ARC) of the County, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the County’s annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the County’s net OPEB obligation:

Annual required contribution	\$ 84,700
Interest on net OPEB obligation	5,352
Adjustment to annual required contribution	<u>(5,100)</u>
Annual OPEB cost	84,952
Contributions made	<u>(29,900)</u>
Increase in net OPEB obligation	55,052
Net OPEB obligation beginning of year	<u>132,948</u>
Net OPEB obligation end of year	<u>\$ 188,000</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2011, the County contributed \$29,900 to the medical plan. Plan members eligible for benefits contributed \$25,840, or 46% of the premium costs.

The County’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 84,705	16.1%	\$ 71,048
2010	84,900	27.1	132,948
2011	84,952	35.2	188,000

Funded Status and Funding Progress – As of July 1, 2008, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$781,012, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$781,012. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$5,879,000 and the ratio of the UAAL to covered payroll was 13.3%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2008 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4% discount rate based on the County's funding policy. The projected annual medical trend rate is 9%. The ultimate medical trend rate is 4.5%. The medical trend rate is reduced 0.5% each year until reaching the 4.5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

Projected claim costs of the medical plan are \$1,165 per month for retirees less than age 65. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(12) Risk Management

The County is exposed to various risks of loss related to torts; theft damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by purchase of commercial insurance. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(13) Employee Health Insurance Plan

The Internal Service, Employee Health Plan Trust Fund was established to account for the partial self funding of the County's health insurance benefit plan. The plan is funded by both employee and County contributions and is administered through a service agreement with Wellmark. The agreement is subject to automatic renewal provisions. The County assumes liability for claims up to the individual stop loss limitation of \$100,000. Claims in excess of coverage are insured through purchase of stop loss insurance.

Monthly payments of service fees and plan contributions to the Employee Health Plan Trust Fund are recorded as expenditures from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Wellmark from the Employee Health Plan Trust Fund. The County's contribution for the year ended June 30, 2011 was \$2,105,765.

Amounts payable from the Employee Health Plan Trust Fund at June 30, 2011 total \$341,008, which is for incurred but not reported (IBNR) and reported but not paid claims. The amounts are based on actuarial estimates of the amounts necessary to pay prior year and current year claims and to establish a reserve for catastrophic losses. That reserve was \$1,610,282 at June 30, 2011 and is reported as a designation of the Internal Service, Employee Health Plan Trust Fund net assets. A liability has been established based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been

incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Settlements have not exceeded the stop-loss coverage in any of the past three years. A reconciliation of changes in the aggregate liabilities for claims for the current year is as follows:

Unpaid claims at July 1, 2010	\$ 271,371
Incurring claims (including claims incurred but not reported as of June 30, 2011)	2,207,736
Payments on claims during the fiscal year	<u>(2,138,099)</u>
Unpaid claims at June 30, 2011	<u>\$ 341,008</u>

(14) Lee County EMS Ambulance, Inc.

Lee County EMS Ambulance, Inc. (EMS) provides ambulance service for Lee County. EMS reports its financial activity using a calendar year end and the income tax basis of accounting. As permitted by GASB Statement No. 34, the County has opted to present condensed financial information for its discretely presented component unit. Following is the unaudited condensed financial information for EMS for the year ended December 31, 2010.

Condensed Statement of Net Assets December 31, 2010 (Unaudited)	
Assets	
Capital assets, net of accumulated depreciation	\$ 186,516
Other	106,453
Total assets	<u>292,969</u>
Liabilities	
Other	<u>25,305</u>
Net assets:	
Invested in capital assets	186,516
Unrestricted	81,148
Total net assets	<u>\$ 267,664</u>

Condensed Statement of Revenues, Expenses and Changes in Fund Net Assets			
Year ended December 31, 2010			
(Unaudited)			
Operating revenues:			
Patient income		\$	1,372,473
County subsidy			390,000
Other			800
Total operating revenues			<u>1,763,273</u>
Operating expenses:			
Salaries and benefits	\$	1,162,771	
Insurance		234,182	
Other		<u>572,171</u>	<u>1,969,124</u>
Operating loss			(205,851)
Non-operating revenues:			
Interest income			<u>2</u>
Net loss			(205,849)
Net assets beginning of year			<u>473,513</u>
Net assets end of year		\$	<u><u>267,664</u></u>

(15) Jointly Governed Organization

Lee County participates in the Lee County Public Safety Answering Point Association, a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa. Financial transactions of this organization are included in the County's financial statements as part of Other Agency Funds because of the County's fiduciary relationship with the organization. The following financial data is for the year ended June 30, 2011:

Additions:

Contributions from governmental units:

Member contributions		\$	573,127
Miscellaneous			775
Total additions			<u>573,902</u>

Deductions:

Salaries	\$	341,790	
Benefits		160,930	
Office supplies		2,453	
Legal representation and publications		1,017	
Telephone		1,231	
Equipment		6,144	
Training		210	
Equipment rental		7,725	
Maintenance and improvements		5,465	
Data processing services		<u>201,367</u>	<u>728,332</u>

Net (154,430)

Balance beginning of year 211,613

Balance end of year \$ 57,183

(16) Ambulance Subsidy Agreement

On June 21, 2011, the County entered into an agreement with Lee County EMS Ambulance Inc. (EMS). As part of this agreement, the County agreed to continue to subsidize EMS to provide ambulance services to the County. The County's obligation under this agreement commenced on July 1, 2011 and terminates on June 30, 2014. Pursuant to the agreement, the County is to pay \$390,000 per year for three years at \$32,500 per month.

(17) Construction Contract Commitment

The County entered into a construction contract totaling \$514,659 for construction of a bridge. At June 30, 2011, \$507,378 remains unpaid and will be paid as work on the project progresses

(18) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	Special Revenue			
	Conservation			
	General	Land Acquisition	Sheriff Commissary	Electronic Transaction
Balances June 30, 2010, as previously reported	\$4,156,722	6,570	22,592	4
Change in fund type classification per implementation of GASB Statement No. 54	29,166	(6,570)	(22,592)	(4)
Balances July 1, 2010, as restated	\$4,185,888	-	-	-

Lee County

Required Supplementary Information

Lee County

Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) – All Governmental Funds

Required Supplementary Information

Year ended June 30, 2011

	Actual	Less Funds not Required to be Budgeted	Net
Receipts:			
Property and other county tax	\$ 11,627,053	-	11,627,053
Interest and penalty on property tax	137,929	-	137,929
Intergovernmental	9,780,310	249,133	9,531,177
Licenses and permits	98,411	-	98,411
Charges for service	936,285	-	936,285
Use of money and property	314,883	66,294	248,589
Miscellaneous	376,768	156,806	219,962
Total receipts	23,271,639	472,233	22,799,406
Disbursements:			
Public safety and legal services	4,130,938	-	4,130,938
Physical health and social services	3,506,636	3,860	3,502,776
Mental health	4,307,614	66,710	4,240,904
County environment and education	1,625,530	321,281	1,304,249
Roads and transportation	4,119,542	-	4,119,542
Governmental services to residents	903,131	-	903,131
Administration	2,342,500	-	2,342,500
Non-program	52,220	-	52,220
Debt service	818,097	-	818,097
Capital projects	451,538	-	451,538
Total disbursements	22,257,746	391,851	21,865,895
Excess (deficiency) of receipts over (under) disbursements	1,013,893	80,382	933,511
Other financing sources, net	20,879	15,027	5,852
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,034,772	95,409	939,363
Balance beginning of year	8,345,565	254,233	8,091,332
Balance end of year	\$ 9,380,337	349,642	9,030,695

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Net
		Variance
11,657,224	11,657,224	(30,171)
111,606	111,606	26,323
9,200,990	9,568,898	(37,721)
101,500	101,500	(3,089)
961,777	961,777	(25,492)
226,479	226,479	22,110
312,883	312,883	(92,921)
22,572,459	22,940,367	(140,961)
4,387,492	4,387,492	256,554
3,828,187	3,834,823	332,047
5,004,578	5,004,578	763,674
1,275,447	1,390,397	86,148
4,168,700	4,168,700	49,158
983,777	983,777	80,646
2,292,845	2,479,593	137,093
-	161,423	109,203
813,452	813,452	(4,645)
839,363	839,493	387,955
23,593,841	24,063,728	2,197,833
(1,021,382)	(1,123,361)	2,056,872
-	-	5,852
(1,021,382)	(1,123,361)	2,062,724
7,055,408	7,055,408	1,035,924
6,034,026	5,932,047	3,098,648

Lee County
Budgetary Comparison Schedule - Budget to GAAP Reconciliation
Required Supplementary Information
Year ended June 30, 2011

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 23,271,639	193,998	23,465,637
Expenditures	22,257,746	663,485	22,921,231
Net	1,013,893	(469,487)	544,406
Other financing sources, net	20,879	88,148	109,027
Beginning fund balances	8,345,565	609,477	8,955,042
Ending fund balances	<u>\$ 9,380,337</u>	<u>228,138</u>	<u>9,608,475</u>

See accompanying independent auditor's report.

Lee County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds except blended component units, Internal Service and Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon ten major classes of expenditures known as functions, not by fund. These ten functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Permanent Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, three budget amendments increased budgeted disbursements by \$469,887. The budget amendments are reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body, as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E911 System by the Joint E911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

During the year ended June 30, 2011, disbursements exceeded the amount budgeted in the debt service function.

Lee County

Schedule of Funding Progress for the
Retiree Health Plan
(In Thousands)

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	Jul 1, 2008	-	\$ 781	781	0.00%	\$ 5,879	13.3%
2010	Jul 1, 2008	-	781	781	0.00	5,879	13.3
2011	Jul 1, 2008	-	781	781	0.00	5,879	13.3

See Note 11 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

Other Supplementary Information

Lee County
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2011

		Resource	County		Special
	Rural	Enhancement	Recorder's	Sheriff	Great River
	Services	and	Records	Reserves	Progressive
		Protection	Management		Housing
					Corporation
Assets					
Cash and pooled investments:					
County Treasurer	\$ 429,778	24,607	34,681	5,747	-
Component units	-	-	-	-	21
Receivables:					
Property tax:					
Delinquent	2,868	-	-	-	-
Succeeding year	960,000	-	-	-	-
Accounts	-	-	-	-	-
Accrued interest	-	11	-	-	-
Due from other governments	258,818	-	15	-	-
Total assets	\$ 1,651,464	24,618	34,696	5,747	21
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 147	-	-	78	-
Due to other governments	-	-	-	-	-
Salaries and benefits payable	13,245	1,081	-	-	-
Deferred revenue:					
Succeeding year property tax	960,000	-	-	-	-
Other	62,825	-	-	-	-
Total liabilities	1,036,217	1,081	-	78	-
Fund balances:					
Nonspendable:					
Hospice care	-	-	-	-	-
Restricted for:					
Rural services	615,247	-	-	-	-
Hospice care	-	-	-	-	-
Other purposes	-	23,537	34,696	5,669	21
Assigned for capital projects	-	-	-	-	-
Unassigned	-	-	-	-	-
Total fund balances	615,247	23,537	34,696	5,669	21
Total liabilities and fund balances	\$ 1,651,464	24,618	34,696	5,747	21

See accompanying independent auditor's report.

Revenue									
Lincoln Ridge Limited Partnership	Lee County Economic Development Group	Three Rivers Conservation Foundation	Friends of Public Health	Sheriff's Forfeiture	Memorial Trust	Neff Memorial	Capital Projects	Permanent Neff Memorial	Total
-	-	-	-	7,167	265,862	23,986	48,903	82,500	923,231
61,846	38,973	156,810	91,992	-	-	-	-	-	349,642
-	-	-	-	-	-	-	-	-	2,868
-	-	-	-	-	-	-	-	-	960,000
11,131	350,000	-	-	-	-	-	-	-	361,131
-	-	-	-	-	116	36	22	-	185
-	-	-	-	-	-	-	-	-	258,833
72,977	388,973	156,810	91,992	7,167	265,978	24,022	48,925	82,500	2,855,890
69,018	350,000	-	-	-	-	-	-	-	419,243
-	-	-	-	-	1,385	-	-	-	1,385
-	1,114	-	-	-	-	-	-	-	15,440
-	-	-	-	-	-	-	-	-	960,000
-	-	-	-	-	-	-	-	-	62,825
69,018	351,114	-	-	-	1,385	-	-	-	1,458,893
-	-	-	-	-	-	-	-	82,500	82,500
-	-	-	-	-	-	-	-	-	615,247
-	-	-	-	-	-	24,022	-	-	24,022
40,183	37,859	156,810	91,992	7,167	264,593	-	-	-	662,527
-	-	-	-	-	-	-	48,925	-	48,925
(36,224)	-	-	-	-	-	-	-	-	(36,224)
3,959	37,859	156,810	91,992	7,167	264,593	24,022	48,925	82,500	1,396,997
72,977	388,973	156,810	91,992	7,167	265,978	24,022	48,925	82,500	2,855,890

Lee County

Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2011

		Resource	County		Special
	Rural	Enhancement	Recorder's	Sheriff	Great River
	Services	and	Records	Reserves	Progressive
		Protection	Management		Housing
					Corporation
Revenues:					
Property and other county tax	\$ 749,465	-	-	-	-
Local option sales tax	1,131,480	-	-	-	-
Intergovernmental	36,964	21,473	-	-	39,133
Charges for service	-	-	5,934	-	-
Use of money and property	51	175	181	-	-
Miscellaneous	-	-	-	2,636	-
Total revenues	1,917,960	21,648	6,115	2,636	39,133
Expenditures:					
Operating:					
Public safety and legal services	622,852	-	-	251	-
Physical health and social services	-	-	-	-	-
Mental health	-	-	-	-	39,143
County environment and education	138,201	27,992	-	-	-
Governmental services to residents	1,101	-	-	-	-
Capital projects	-	-	-	-	-
Total expenditures	762,154	27,992	-	251	39,143
Excess (deficiency) of revenues over (under) expenditures	1,155,806	(6,344)	6,115	2,385	(10)
Other financing uses:					
Operating transfers out	(1,250,000)	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures and other financing uses	(94,194)	(6,344)	6,115	2,385	(10)
Fund balances beginning of year	709,441	29,881	28,581	3,284	31
Fund balances end of year	\$ 615,247	23,537	34,696	5,669	21

See accompanying independent auditor's report.

Revenue									
Lincoln Ridge Limited Partnership	Lee County Economic Development Group	Three Rivers Conservation Foundation	Friends of Public Health	Sheriff's Forfeiture	Memorial Trust	Neff Memorial	Capital Projects	Permanent Neff Memorial	Total
-	-	-	-	-	-	-	-	-	749,465
-	-	-	-	-	-	-	-	-	1,131,480
-	210,000	-	-	-	-	-	-	-	307,570
-	-	-	-	-	-	-	-	-	5,934
62,083	-	3,961	250	-	1,455	479	431	-	69,066
3,382	51,903	41,389	75,000	1,523	46,952	-	7,790	-	230,575
65,465	261,903	45,350	75,250	1,523	48,407	479	8,221	-	2,494,090
-	-	-	-	-	-	-	-	-	623,103
77,531	251,826	-	3,860	-	10,974	-	-	-	344,191
-	-	-	-	-	-	-	-	-	39,143
-	-	30,844	-	-	-	-	-	-	197,037
-	-	-	-	-	-	-	-	-	1,101
-	-	-	-	-	-	-	30,688	-	30,688
77,531	251,826	30,844	3,860	-	10,974	-	30,688	-	1,235,263
(12,066)	10,077	14,506	71,390	1,523	37,433	479	(22,467)	-	1,258,827
-	-	-	-	-	-	-	-	-	(1,250,000)
(12,066)	10,077	14,506	71,390	1,523	37,433	479	(22,467)	-	8,827
16,025	27,782	142,304	20,602	5,644	227,160	23,543	71,392	82,500	1,388,170
3,959	37,859	156,810	91,992	7,167	264,593	24,022	48,925	82,500	1,396,997

Schedule 3

Lee County
Combining Schedule of Net Assets
Internal Service Funds

June 30, 2011

	Supplies	Employee Health Plan Trust	Information Technology	Total
Assets				
Current assets:				
Cash and pooled investments	\$ 30,417	1,950,536	58,484	2,039,437
Accounts receivable	23	68	-	91
Accrued interest receivable	-	918	-	918
Due from other funds	2,573	-	-	2,573
Inventories	11	-	-	11
Noncurrent assets:				
Capital assets, net of accumulated depreciation/amortization	-	-	82,142	82,142
Total assets	<u>33,024</u>	<u>1,951,522</u>	<u>140,626</u>	<u>2,125,172</u>
Liabilities				
Current liabilities:				
Accounts payable	206	341,008	5,495	346,709
Salaries and benefits payable	-	204	2,254	2,458
Due to other funds	-	28	236	264
Compensated absences	-	-	4,207	4,207
Non-current liabilities:				
Net OPEB liability	-	-	1,602	1,602
Total liabilities	<u>206</u>	<u>341,240</u>	<u>13,794</u>	<u>355,240</u>
Net Assets				
Invested in capital assets	-	-	82,142	82,142
Unrestricted	32,818	1,610,282	44,690	1,687,790
Total net assets	<u>\$ 32,818</u>	<u>1,610,282</u>	<u>126,832</u>	<u>1,769,932</u>

See accompanying independent auditor's report.

Lee County

Combining Schedule of Revenues, Expenses and
Changes in Fund Net Assets
Internal Service Funds

Year ended June 30, 2011

	Supplies	Employee Health Plan Trust	Information Technology	Total
Operating revenues:				
Reimbursements from operating funds and other governmental units	\$ -	2,105,765	149,216	2,254,981
Reimbursements from employees and others	43,293	162,752	12,046	218,091
Miscellaneous reimbursements	-	3,943	3,434	7,377
Total operating revenues	43,293	2,272,460	164,696	2,480,449
Operating expenses:				
Medical and health services	-	2,207,736	-	2,207,736
Supplemental insurance	-	4,428	-	4,428
Salaries and benefits	-	-	80,480	80,480
Administrative fees, network access fees and stop-loss premium	-	240,032	-	240,032
Supplies, utilities and data processing	41,490	1,160	101,838	144,488
Maintenance agreements	-	-	17,722	17,722
Non-capitalized equipment	-	-	16,155	16,155
Depreciation/amortization	-	-	30,964	30,964
Total operating expenses	41,490	2,453,356	247,159	2,742,005
Operating income (loss)	1,803	(180,896)	(82,463)	(261,556)
Non-operating revenues:				
Interest income	-	11,383	-	11,383
Net income (loss)	1,803	(169,513)	(82,463)	(250,173)
Net assets beginning of year	31,015	1,779,795	209,295	2,020,105
Net assets end of year	\$ 32,818	1,610,282	126,832	1,769,932

See accompanying independent auditor's report.

Lee County

Lee County
Combining Schedule of Cash Flows
Internal Service Funds

Year ended June 30, 2011

	Supplies	Employee Health Plan Trust	Information Technology	Total
Cash flows from operating activities:				
Cash received from operating funds and other governmental units	\$ 44,628	2,111,123	152,650	2,308,401
Cash received from employees and others	-	162,844	12,046	174,890
Cash paid to suppliers for services	(37,347)	(2,386,673)	(212,926)	(2,636,946)
Net cash provided (used) by operating activities	7,281	(112,706)	(48,230)	(153,655)
Cash flows from capital and related financing activities:				
Purchase of equipment	-	-	(19,251)	(19,251)
Cash flows from investing activities:				
Interest on investments	-	11,375	-	11,375
Net increase (decrease) in cash and cash equivalents	7,281	(101,331)	(67,481)	(161,531)
Cash and cash equivalents beginning of year	23,136	2,051,867	125,965	2,200,968
Cash and cash equivalents end of year	\$ 30,417	1,950,536	58,484	2,039,437
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 1,803	(180,896)	(82,463)	(261,556)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	-	-	30,964	30,964
Changes in assets and liabilities:				
Increase in accounts receivable	31	1,507	-	1,538
Increase in due from other funds	1,303	-	-	1,303
Decrease in inventories	3,978	-	-	3,978
Increase in accounts payable	166	69,637	3,277	73,080
Increase in salaries and benefits payable	-	204	256	460
Increase (decrease) in due to other funds	-	(3,158)	89	(3,069)
Increase in compensated absences	-	-	(821)	(821)
Increase in net OPEB liability	-	-	468	468
Net cash provided (used) by operating activities	\$ 7,281	(112,706)	(48,230)	(153,655)

See accompanying independent auditor's report.

Lee County
Combining Schedule of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2011

	County Offices	Agricultural Extension Education	County Assessor	Drainage Districts	Schools
Assets					
Cash and pooled investments:					
County Treasurer	\$ -	3,503	390,870	154,533	285,212
Other County officials	225,625	-	-	-	-
Receivables:					
Property tax:					
Delinquent	-	1,071	2,449	-	92,383
Succeeding year	-	207,000	474,000	-	16,376,000
Accounts	1,900	-	22	4,640	-
Accrued interest	-	-	-	-	-
Special assessments	-	-	-	-	-
Drainage assessments	-	-	-	80,122	-
Due from other governments	-	-	-	-	-
Total assets	\$ 227,525	211,574	867,341	239,295	16,753,595
Liabilities					
Accounts payable	\$ -	-	826	81,219	-
Salaries and benefits payable	-	-	9,194	-	-
Due to other governments	23,290	211,574	839,718	15,978	16,753,595
Trusts payable	204,235	-	-	-	-
Compensated absences	-	-	17,603	-	-
Bank loan	-	-	-	142,098	-
Total liabilities	\$ 227,525	211,574	867,341	239,295	16,753,595

See accompanying independent auditor's report.

Community Colleges	Corpor- ations	Townships	Auto License and Use Tax	Drivers License Trust	Payee Accounts	Other	Total
17,506	140,296	5,584	588,251	161	208,432	546,272	2,340,620
-	-	-	-	-	-	-	225,625
5,387	60,558	1,053	-	-	-	17	162,918
1,053,000	10,682,000	331,000	-	-	-	3,000	29,126,000
-	-	-	213,351	1,640	-	245	221,798
-	-	-	-	-	-	193	193
-	-	-	-	-	-	191,533	191,533
-	-	-	-	-	-	-	80,122
-	-	-	-	-	-	42,565	42,565
1,075,893	10,882,854	337,637	801,602	1,801	208,432	783,825	32,391,374
-	-	-	-	-	-	33,525	115,570
-	-	-	-	-	-	19,877	29,071
1,075,893	10,882,854	337,637	801,602	1,801	-	714,296	31,658,238
-	-	-	-	-	208,432	494	413,161
-	-	-	-	-	-	15,633	33,236
-	-	-	-	-	-	-	142,098
1,075,893	10,882,854	337,637	801,602	1,801	208,432	783,825	32,391,374

Lee County
Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2011

	County Offices	Agricultural Extension Education	County Assessor	Drainage Districts
Assets and Liabilities				
Balances beginning of year	\$ 277,370	205,083	797,176	345,831
Additions:				
Property and other county tax	-	206,371	471,770	-
E911 surcharges	-	-	-	-
State tax credits	-	8,730	21,214	-
Drivers license fees	-	-	-	-
Office fees and collections	757,065	-	259	-
Auto licenses, use tax and postage	-	-	-	-
Assessments	-	-	-	172,617
Trusts	1,153,923	-	-	-
Miscellaneous	-	-	68	1,299,100
Total additions	1,910,988	215,101	493,311	1,471,717
Deductions:				
Agency remittances:				
To other funds	554,368	-	-	-
To other governments	233,266	208,610	423,146	1,578,253
Trusts paid out	1,173,199	-	-	-
Total deductions	1,960,833	208,610	423,146	1,578,253
Balances end of year	\$ 227,525	211,574	867,341	239,295

See accompanying independent auditor's report.

Schools	Community Colleges	Corpora- tions	Townships	Auto License and Use Tax	Drivers License Trust	Payee Accounts	Other	Total
16,652,356	1,037,175	10,690,487	319,085	597,513	161	181,621	842,075	31,945,933
16,406,090	1,049,508	10,842,113	318,239	-	-	-	3,356	29,297,447
-	-	-	-	-	-	-	52,496	52,496
704,537	43,612	318,411	14,798	-	-	-	147	1,111,449
-	-	-	-	-	87,425	-	-	87,425
-	-	-	-	-	-	-	15,862	773,186
-	-	-	-	8,054,619	-	-	-	8,054,619
-	-	-	-	-	-	-	112,674	285,291
-	-	-	-	-	-	1,147,293	681,815	2,983,031
-	-	-	-	-	-	-	1,851,530	3,150,698
17,110,627	1,093,120	11,160,524	333,037	8,054,619	87,425	1,147,293	2,717,880	45,795,642
-	-	-	-	287,450	50,297	-	-	892,115
17,009,388	1,054,402	10,968,157	314,485	7,563,080	35,488	-	2,132,616	41,520,891
-	-	-	-	-	-	1,120,482	643,514	2,937,195
17,009,388	1,054,402	10,968,157	314,485	7,850,530	85,785	1,120,482	2,776,130	45,350,201
16,753,595	1,075,893	10,882,854	337,637	801,602	1,801	208,432	783,825	32,391,374

Lee County
Schedule of Revenues By Source and Expenditures By Function -
All Governmental Funds

For the Last Ten Years

	2011	2010	2009	2008
Revenues:				
Property and other county tax	\$ 10,193,550	9,599,284	9,329,877	9,040,272
Local option sales tax	1,508,640	1,614,653	1,444,024	1,448,841
Tax increment financing	-	-	-	-
Interest and penalty on property tax	141,028	143,078	135,727	132,804
Intergovernmental	9,899,246	9,143,676	9,684,756	9,758,681
Licenses and permits	98,426	86,269	82,522	72,023
Charges for service	943,735	867,688	899,956	934,639
Use of money and property	309,502	326,842	482,356	494,545
Miscellaneous	371,510	303,476	314,528	240,354
Total	\$ 23,465,637	22,084,966	22,373,746	22,122,159
Expenditures:				
Operating:				
Public safety and legal services	\$ 4,185,481	3,888,632	3,689,993	3,618,670
Physical health and social services	3,882,964	3,817,068	3,913,476	3,535,142
Mental health	4,824,623	4,327,187	4,584,834	4,732,019
County environment and education	1,189,364	1,493,459	1,405,654	1,537,120
Roads and transportation	4,476,579	3,790,575	3,763,046	4,000,157
Governmental services to residents	903,704	893,551	961,591	916,840
Administration	2,305,653	2,216,598	2,036,986	2,203,781
Non-program	63,199	103,361	261,564	4,465,490
Debt service	818,097	747,089	736,339	90,769
Capital projects	271,567	2,199,820	3,865,711	774,443
Total	\$ 22,921,231	23,477,340	25,219,194	25,874,431

See accompanying independent auditor's report.

Modified Accrual Basis					
2007	2006	2005	2004	2003	2002
9,320,366	9,344,253	6,717,193	7,541,799	7,365,541	7,207,279
1,425,915	1,422,521	1,335,189	1,208,235	1,276,916	1,225,989
393,163	750,066	693,545	-	-	-
270,733	136,627	119,478	135,959	139,706	150,239
8,719,573	8,732,583	7,459,664	7,962,245	8,783,384	8,261,606
55,974	62,265	53,283	61,716	77,062	71,271
873,083	892,849	822,513	855,211	768,099	880,739
471,460	364,782	298,128	279,467	258,595	388,840
494,190	1,123,788	1,962,381	1,987,823	2,588,161	1,673,160
22,024,457	22,829,734	19,461,374	20,032,455	21,257,464	19,859,123
3,512,938	3,332,940	3,105,607	3,049,182	2,773,197	2,722,325
3,275,224	3,134,004	3,385,130	3,514,564	3,767,970	3,630,793
4,662,962	4,396,349	4,741,619	4,070,197	5,825,118	4,734,145
1,617,237	1,675,269	1,625,156	1,608,790	1,219,746	1,072,142
3,862,651	3,928,318	3,897,439	3,578,306	3,441,171	3,576,503
878,334	1,144,205	902,033	853,197	812,745	788,302
1,912,371	1,842,355	1,816,882	1,695,306	2,263,147	2,051,982
16,000	-	-	-	-	-
416,396	1,373,528	2,461,854	1,438,510	1,428,737	1,427,498
603,521	361,224	591,036	611,245	770,797	275,207
20,757,634	21,188,192	22,526,756	20,419,297	22,302,628	20,278,897

Schedule 9

Lee County

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Agriculture:			
ARRA - Emergency Watershed Protection Program	10.923	69-6114-9-074	\$ 181,138
U.S. Department of Labor:			
ARRA - Employee Benefits Security Administration (EBSA)	17.151		16,548
Total direct			197,686
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		30,583
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	BROSCO56(74)-85-56	5,923
Iowa Department of Public Health:			
ARRA - Highway Planning and Construction	20.205	5881OB50	3,000
			8,923
Iowa Department of Public Safety:			
State and Community Highway Safety	20.600	PAP 10-04 Task 19	4,464
State and Community Highway Safety	20.600	PAP 11-410 Task 46	12,176
			16,640
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		1,550
U.S. Department of Education:			
Iowa Department of Public Health:			
Special Education - Grants for Infants and Families	84.181	5880MHI01	152
U.S. Department of Health and Human Services:			
Iowa Department of Public Health:			
Public Health Emergency Preparedness	93.069	56BT Lee County	10,053
Public Health Emergency Preparedness	93.069	BT56 Lee	47,931
			57,984
State Capacity Building	93.240	5880HH02	5,408
Immunization Grants	93.268	5889I447	14,443
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	5889OB11	22,881
ARRA - Immunization	93.712	5880I447	12,440
ARRA - Child Care and Development Block Grant	93.713		33,152

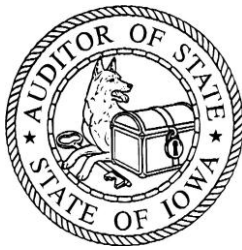
Lee County
Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect (continued):			
U.S. Department of Health and Human Services:			
Iowa Department of Public Health:			
Maternal and Child Health Services Block Grant to the States	93.994	5889MH15	24,870
Maternal and Child Health Services Block Grant to the States	93.994	5881MH15	56,799
			<u>81,669</u>
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
Refugee and Entrant Assistance - State Administered Programs	93.566		36
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		7,595
Foster Care - Title IV-E	93.658		12,314
Adoption Assistance	93.659		3,015
Children's Health Insurance Program	93.767		153
Medical Assistance Program	93.778		29,799
Social Services Block Grant	93.667		10,603
Social Services Block Grant	93.667		174,114
Iowa Department of Public Health:			
Social Services Block Grant	93.667		2,433
			<u>187,150</u>
Iowa Secretary of State:			
Voting Access for Individuals with Disabilities Grants to States	93.617		4,200
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1928-DR-IA	2,600
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1930-DR-IA	54,982
			<u>57,582</u>
Emergency Management Performance Grants	97.042		11,398
Total indirect			<u>599,067</u>
Total			<u>\$ 796,753</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Lee County and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

Lee County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Officials of Lee County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lee County, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated March 6, 2012. Our report included a reference to other auditors. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Lincoln Ridge Limited Partnership, a blended component unit, as described in our report on Lee County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters reported on separately by the other auditors.

Internal Control Over Financial Reporting

Management of Lee County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Lee County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Lee County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lee County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the County's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-11 and II-B-11 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-C-11 through II-I-11 to be significant deficiencies.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether Lee County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

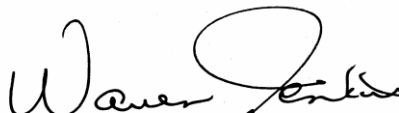
Lee County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the County's responses, we did not audit Lee County's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Lee County and other parties to whom Lee County may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Lee County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State

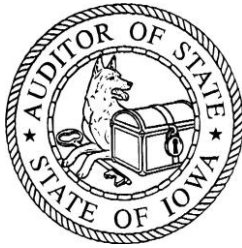


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 6, 2012

**Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133**

Lee County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133

To the Officials of Lee County:

Compliance

We have audited Lee County, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Lee County's major federal programs for the year ended June 30, 2011. Lee County's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Lee County's management. Our responsibility is to express an opinion on Lee County's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lee County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Lee County's compliance with those requirements.

In our opinion, Lee County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of Lee County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Lee County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lee County's internal control over compliance.

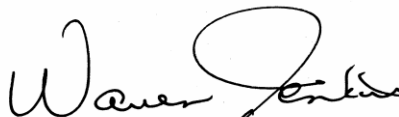
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Lee County and other parties to whom Lee County may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 6, 2012

Lee County
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were as follows:
 - CFDA Number 10.923 – ARRA – Emergency Watershed Protection Program
 - CFDA Number 93.667 – Social Services Block Grant
 - CFDA Number 93.994 – Maternal and Child Health Services Block Grant to the States
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Lee County did not qualify as a low-risk auditee.

Lee County
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-11 Segregation of Duties – During our review of the internal control, the existing procedures are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County's financial statements. The following weaknesses in the offices identified were noted for which no compensating controls exist:

County Treasurer's Office – The same individual who prepares the summary of delinquent tax also performs the year end reconciliation of delinquent tax. The reconciliation is not reviewed and initialed by an independent person. Also, the same individual is responsible for the detailed record keeping and custody of investments. No independent review of investment records or inspection of investments is done. In addition, an initial listing of receipts is not prepared by an independent person, even on a test basis.

County Recorder's Office – The individual who prepares monthly bank reconciliations for North Lee is, at times, responsible for handling and recording receipts. This individual also prepares and signs checks. In addition, bank reconciliations are not always reviewed by an independent person. Mail is opened by employees who have access to accounting records. Voided receipts on cash register tapes are not reviewed for propriety.

County Sheriff's Office – Generally, one individual in the Sheriff's office may have control over receipts, deposits and posting to inmate ledgers for the Commissary account. An independent person does not compare amounts deposited to the receipt records. Bank reconciliations are not always reviewed by an independent person. Also, an initial listing of receipts is not prepared by an independent person, even on a test basis.

County Conservation – There is no initial listing of cash receipts. Also, a reconciliation of Treasurer's receipts to Conservation records is not performed or reviewed by an independent person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, each official should review the operating procedures to obtain the maximum internal control possible under the circumstances. Current personnel should be utilized to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons to the extent possible and should be evidenced by initials or signature of the reviewer and the date of the review.

Responses –

County Treasurer – We will do our best to find an independent person to review all reconciliations of taxes, record keeping and investments.

County Recorder – All personnel are able to receive money for the various processes in our office. Due to staffing, we were unable to avoid having everyone available to

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

receive daily receipts. Now that the offices have consolidated, we have started a process whereby one person opens the mail and another person rings up the documents (provided enough staff is available that day). The mail is generally opened by the Clerks. The Clerks are not responsible for preparing the monthly reports for submission to the various state departments or the Lee County Treasurer. Those reports are prepared by the Recorder and Deputy and we will cross-check the reports. All personnel are able to prepare the daily balance sheet. Voided cash register tapes are reviewed by the Recorder or Deputy during the daily balance procedure or as soon as the error is discovered. The Recorder prepares monthly bank reconciliations for South Lee and the Deputy Recorder prepares monthly bank reconciliations for North Lee. Personnel will initial and date the various reports or reviews. A Lee County Auditor employee is scheduled to begin reviewing these reports in August, 2011

County Sheriff – My administrative assistants each have an assigned area of North or South Lee County to conduct business. There are computerized records of the receipts, transactions, reconciliations and reports. They advised me that once their deposit is prepared, the other administrative assistant can compare records. I have access to that deposit record for review prior to making that deposit. We have limited staff, but will comply with the recommendation to the best of our ability. We will implement a plan in which the Sheriff or Chief Deputy reviews the commissary accounts and deposits, comparing them to incoming checks and monies.

County Conservation – Administrative Assistant will review and initial incoming checks. The director will confirm those checks and do periodic follow ups with receipts to assure deposits.

Conclusions – Responses accepted.

- II-B-11 Financial Reporting – During the audit, we identified material understatements of receivables and deferred revenue recorded in the County's financial statements. Adjustments were subsequently made by the County to properly adjust these amounts in the financial statements.

Recommendation – The County should implement procedures to ensure all receivables and deferred revenue are properly accounted for in the County's financial statements.

Response – The budget director will ask each department head who receives federal dollars if there are any receivables currently outstanding. These prior year reimbursements will be added into the financial report.

Conclusion – Response accepted.

- II-C-11 Capital Assets – The County Auditor's Office previously maintained a capital asset listing accounting for all assets, including those items below capitalization thresholds. This listing was maintained for internal control and insurance purposes. During the year ended June 30, 2011, the County did not update the listing for additions or deletions and the listing was not distributed to each department to review for accuracy.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Recommendation – The capital asset listing should be updated for changes. Annually, the listing should be compared to actual assets to ensure its accuracy.

Response – Capital assets have been updated via AS400 during the year and a final report had been issued to each department for review. Not all departments returned the report by the time the audit came up. We will now require each department to return the report for approval.

Conclusion – Response accepted.

- II-D-11 County Sheriff – The Sheriff's Office did not prepare a year-to-date spreadsheet of receipts and disbursements reconciled to beginning and ending book balances. Bank reconciliations are prepared each month and are reconciled with the book balance. However, the book balance is not reconciled with the fees owed to the County, State and trusts on hand at the end of each month. Also, the Sheriff's office does not print a listing of inmate trust balances at the end of each month

Recommendation – The Sheriff's Office should prepare a year-to-date spreadsheet of receipts and disbursements which should reconcile the beginning and ending balances and to the bank reconciliation. The book balance should be reconciled with the fees owed to the County, State and trusts on hand at the end of each month.

Also, a listing of the inmate trust balances should be printed at the end of each month and deducted from the commissary bank account to determine how much commissary profit should be paid to the County Treasurer each month.

Response – We will visit with the Lee County Auditor for assistance in developing an annual spreadsheet. Stellar Tellar is a professional, computer based commissary system. The system automatically generates a monthly check to be deposited with the Lee County Treasurer. The Jail Administrator prints a monthly report of the balance of each inmate account.

Conclusion – Response accepted.

- II-E-11 Protective Payee Operations – Lee County has been designated “protective payee” by the Social Security Administration, the Iowa Department of Human Services and/or the courts for approximately 120 clients who need assistance in managing their day to day finances. Checks written from payee accounts are prepared, approved and signed by the same person.

Recommendation – The County should develop procedures to ensure checks are not signed by the same person who prepared them.

Response – In regards to checks being signed by the same person that prepares them, this is an ongoing issue and not an achievable business process because of the limited number of individuals involved in providing payee services and geographic location of those individuals. There have been processes implemented so to ensure propriety in management. The first process is that another individual than the preparer handles deposits to individual accounts. (Note that the Lee County Protective Payee process is to have payee funds direct deposited into their respective account straight from Social Security.) There are check stubs maintained with

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

individual's signatures for receipt of personal needs checks that individuals pick up, all other checks are mailed directly to the individual per request. Reconciliation sheets are reviewed and signed off on by persons other than the preparers. Additionally, there is administrative sign off for monthly reconciliations/claims processing method. And finally, the front and back of all checks are included with the bank statements to ensure proper procedure and accountability. This far surpasses the general accounting practice required by Social Security of payees. Social Security also completes an annual audit of accounts that Lee County maintains as an additional measure of accountability.

Conclusion – Response accepted.

- II-F-11 Conservation Foundation – Three Rivers Conservation Foundation, a component unit of the County, receives donations to fund various conservation projects within the County. The Foundation did not prepare annual financial statements. Only monthly financial statements were provided. The activity from the monthly financial statements did not reconcile to the ending balance on the year end balance sheet. In addition, monthly bank reconciliations were not prepared and the Foundation did not obtain images of both sides of canceled checks with the bank statements. These matters were resolved for audit purposes.

Recommendation – The Foundation should prepare monthly bank reconciliations to ensure the monthly balance sheets and income statements reconcile to its bank and investment statements. Also, the Foundation should prepare annual financial statements. The bank reconciliations should be reviewed and initialed by an independent person. In addition, the Foundation should obtain images of the front and back of canceled checks as required by Chapter 554D.114(5) of the Code of Iowa.

Response – The Foundation began month end bank account reconciliations in November 2010. We will continue to do the monthly reconciliations as we go forward. We will also work with the bank to obtain images of the front and back of canceled checks.

Conclusion – Response accepted.

- II-G-11 Information Systems Controls – PC terminals do not have an automatic logoff function. Screensaver passwords are encouraged, but not enforced by policy.

Recommendation – The County should implement a policy which requires the automatic logoff procedures of PCs and Solutions and an auto-logoff for PC's should be enforced.

Response – The Lee County Personnel Policy will be revised to add the verbiage regarding the use of screensaver passwords. Copy of the change will be sent to all users.

Conclusion – Response accepted.

- II-H-11 Timesheets – The Sheriff's Office and the Public Health Department maintain their payroll records and do not follow the County policy regarding accrued vacation

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

limits. Also, the County Sheriff's Office does not communicate the amount of leave taken by employees.

Recommendation – The County would determine reasonable ceilings for leave amounts and work on a system so both sets of records are in agreement.

Response – Sheriff's Office discrepancies are in the process of being resolved. Vacation payout was done in August 2012 to remedy the overage on vacation. The Health Department had been notified the Board of Supervisors requested the Board of Health look into setting maximums on all leave time.

Conclusion – Response accepted.

- II-I-11 CPC Segregation of Duties – The same person who opens the mail also prepares the deposit of checks received and takes the deposit to the Treasurer's Office once a month. No initial listing is prepared. Also, it appears deposits are not being made timely.

Recommendation – The CPC office should have one person open the mail and make an initial listing of checks received. Another person should deposit the checks within ten business days and an independent person should review the deposits to the initial listing monthly. Deposits should be made more timely.

Response – Currently there is a delineation of responsibilities. The mail is received at P.O. Box 190; Fort Madison, IA 52627. It is distributed to the mail boxes by the County Auditor's office. The County Auditor's Office maintained a listing of checks/warrants received via mail to the CPC office addressed to the County Auditor's Office as all the state funds are received in this manner. There was a gap in this protocol, identified by the state auditors, that there are revenues received directly to the CPC office which the County Auditor's Office did not open. The County Auditor's Office and CPC office now have a protocol established moving forward that the County Auditor's Office will open all mail to the CPC office to note checks received on their ledger. The mail will then be picked up by either Penny Logsdon or Rynne Wood for processing. Penny Logsdon codes all revenue and expenditures and Rynne Wood authorizes the processing of revenues and expenditures. A copy of the revenue check/warrant will be maintained in the CPC office and the County Treasurer's revenue report will be used by CPC to cross reference with the County Auditors ledger of revenues received.

Lee County Housing Initiative has a contracted management entity for county owned apartments, the Fort Madison Housing Authority. Checks received as rent payment are received by FMHA and entered into a rent ledger and then forwarded on to the county offices for processing. The FMHA provides a copy of the rent ledger to the CPC office which is cross referenced and signed by the CPC at the end of each month. CPC/GR will make every effort to process revenues within a timely fashion with in the county policy of 10 business days.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Lee County
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over the major programs were noted.

Lee County
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-11 Certified Budget – Disbursements during the year ended June 30, 2011 exceeded the amount budgeted in the debt service function.

Recommendation – The budget should have been amended in accordance with Chapter 331.435 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – County Auditor has added another employee on the accounting staff to assist the budget director with other duties so this would not happen again.

Conclusion – Response accepted.

- IV-B-11 Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

- IV-C-11 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

- IV-D-11 Business Transactions – Business transactions between the County and County officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Ernie Steffensmeier, County Engineer, brother owns Steffensmeier Welding	Welding services	\$ 2,339
Tammy Wilson, Financial Director of Public Health, Husband is a shareholder in Agrineed Inc.	Supplies and maintenance	4,730
Ernie Schiller, Board of Supervisors, daughter is Weed Commissioner	Weed eradication	6,690

In accordance with Chapter 331.342(10) of the Code of Iowa, the above transactions may represent a conflict of interest.

Recommendation – The County should consult legal counsel to determine the disposition of this matter.

Response – Each department will be responsible for bidding out the items purchased in order to show that there is not favoritism to a vendor. The Board of Supervisor member abstains from any vote during the meetings when it involves his daughter.

Conclusion – Response accepted.

- IV-E-11 Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of coverage should be periodically reviewed to ensure the coverage is adequate for current operations.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

- IV-F-11 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- IV-G-11 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County's investment policy were noted, except as noted in comment IV-J-11.
- IV-H-11 Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- IV-I-11 County Extension Office – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an Extension Council separate and distinct from County operations and, consequently, is not included in Exhibits A or B.
- IV-J-11 Friends of Public Health Investment – The County gave \$75,000 to IO-Mega to help aid the start-up of IO-Mega. In exchange the County received a 1.84% ownership in the company which was granted to the Friends of Public Health, a non-profit corporation.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a private non-profit corporation. Article III, Section 31 states, "... no public money or property shall be appropriated for local, or private purposes, unless such appropriation, compensation, or claim, be allowed by two thirds of the members elected to each branch of the General Assembly."

The ownership interest in IO-Mega is not included in the list of allowable investments of public funds specified in Chapter 12B.10(5) of the Code of Iowa.

Recommendation – The County should consult legal counsel to determine the disposition of this matter, including requesting the return of the ownership interest to the County in some form other than preferred share interest.

Response – The Board will contact our County Attorney to determine what steps need to be done to correct this error.

Conclusion – Response accepted.

Lee County

Staff

This audit was performed by:

Brian R. Brustkern, CPA, Manager
Scott P. Boisen, Senior Auditor II
Tracey L. Gerrish, Staff Auditor
Gabriel M. Stafford, CPA, Staff Auditor
Kassi D. Adams, Assistant Auditor
W. Brad Corley, Assistant Auditor
Brandon J. Vogel, Assistant Auditor
Ryan A. Yeager, CPA, Assistant Auditor
Stephen J. Hoffman, Auditor Intern
Kelsey J. Kranz, Auditor Intern

A handwritten signature in black ink, reading "Andrew E. Nielsen". The signature is fluid and cursive, with the first name "Andrew" and last name "Nielsen" clearly legible.

Andrew E. Nielsen, CPA
Deputy Auditor of State